



MINUTES

TIME-21 Transportation Funding Study Committee

November 19, 2007

MEMBERS PRESENT:

Senator Thomas Rielly, Co-chairperson
Senator John Putney
Senator Pat Ward
Senator Steve Warnstadt

Representative Geri Huser, Co-chairperson
Representative Jim Lykam
Representative Rod Roberts
Representative David Tjepkes

MEETING IN BRIEF

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- I. Procedural Business
- II. Follow-up on Questions From October Meeting –
Mr. Stuart Anderson, Department of Transportation
- III. Mr. Dave Casey, Department of Revenue
- IV. Committee Discussion
- V. Committee Action on Senator Putney's Motion
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I. Procedural Business

Call to Order. Co-chairperson Rielly called the second meeting of the TIME-21 Transportation Funding Study Committee to order at 9:05 a.m. on November 19, 2007, in the Supreme Court Chamber, Room 103 of the State Capitol Building. The minutes of the October 17, 2007, meeting were approved as distributed. Upon conclusion of the presentations and discussion by the Committee, the meeting was adjourned at 2:48 p.m.

Luncheon Recess. The Committee took a luncheon recess from 12:04 p.m. until 1:24 p.m.

Next Meeting. The next meeting of the Committee was tentatively scheduled for December 19, 2007, beginning at 10:00 a.m. in the Supreme Court Chamber of the Statehouse.

II. Follow-up on Questions From October Meeting – Mr. Stuart Anderson, Department of Transportation

Mr. Anderson provided a packet of materials to the Committee detailing answers that were requested during the Committee's first meeting. Included in the packet is a graph comparing gas prices and fuel tax levels to the number of miles traveled each year. While the number of miles traveled has an upward trend, the data shows that the rate of increase has leveled off in recent years. On the reverse side of the graph is the data represented in the chart.

Mr. Anderson also provided the Committee with charts representing state highway revenues and allocations for Iowa and South Dakota. These charts are similar to charts already included in the department's binder previously provided to the members for other surrounding states.

The packet of materials also included data on the trailer registrations in Iowa for calendar year 2006. Iowa currently has 413,026 registered trailers, each weighing 2,000 pounds or less and 167,694 registered trailers weighing more than 2,000 pounds each. Those totals were also broken down into the number of regular trailers and semitrailers.

Mr. Anderson also distributed replacement pages for chapter 12 of the department's binder. The changes made to those pages were printed in blue text. Most of the changes were made to the potential changes to vehicle registrations. For example, some of the minimum registration fees were increased and the implementation periods were extended.

Road Funding Status in Other States. Mr. Anderson provided a summary of transportation funding initiatives in neighboring states. According to Mr. Anderson, Illinois has pending legislation that includes \$4.75 billion in new transportation funding for roads over six years. In addition, the Transportation for Illinois Coalition is seeking \$6 billion in additional funding over five years.

In Minnesota, legislation that would have increased the fuel tax by 5 cents was vetoed by the governor. The legislation would have also implemented a \$0.025 per gallon surcharge on fuel for debt service resulting from previously issued bonds. The Minnesota legislation is expected to be introduced again during the upcoming session.

Missouri Department of Transportation has a construction program for FY 2007-2008 of \$1.2 billion. That funding is expected to drop to \$569 million by FY 2009-2010 with current revenues



and debt service. Missouri is also undertaking a "design-build-maintain" bridge improvement program to rehabilitate over 800 bridges by 2012. Mr. Anderson also outlined two legislative proposals from Missouri's 2007 legislative session, which would have generated \$4.2 billion over six years and \$7.3 billion over ten years respectively.

In Nebraska, Speaker Mike Flood considers road funding to be the number one issue for the upcoming legislative session. Nebraska's concerns stem from the potential for reduced federal funding next year. The Nebraska governor and legislature are considering funding mechanisms including using general fund dollars.

South Dakota's Department of Transportation has seen its revenue fall by \$12 million over the past two years. Governor Mike Rounds is not seeking additional funding at this time but he is considering a gas tax increase if a shortfall in funding continues.

Wisconsin recently passed a funding bill but was not included in Mr. Anderson's written summary. In addition, the legislature considered a tax on oil companies to provide an additional \$234 million in road funding. However, the tax was not included in the final budget bill adopted in October 2007.

III. Mr. Dave Casey, Department of Revenue

Constitutionality Related to Road Use Tax Fund (RUTF). Mr. Casey briefly discussed the constitutional framework for moneys deposited in the RUTF. Iowa courts apply the constitutional language of Article VII, section 8, narrowly because it is clear and unambiguous. Mr. Casey believes that vehicle registration fees paid are protected by the constitutional language. Additionally, Mr. Casey believes that an excise tax on motor fuel would be constitutionally protected.

According to Mr. Casey, the motor vehicle use tax in Iowa is not a sales tax. The use tax is typically collected by the vehicle dealer from the buyer as a convenience. Based on current constitutional language, Mr. Casey does not believe that the use tax is constitutionally protected. Mr. Casey also opined that the environmental protection charge imposed under Code chapter 424 is not constitutionally protected.

Motor Vehicle Use Tax Fraud. According to Mr. Casey, one of the difficulties in combating motor vehicle use tax fraud is implementing a system to identify incorrect purchase prices. Most fraud occurs during sales made between individuals and not through a dealer. The Department of Revenue received a proposal from representatives of Kelley Blue Book that would examine the estimated and actual costs of vehicle sales. It was estimated that the proposal could generate \$12 million per year. Mr. Casey stated that the Department of Revenue carefully considered the proposal but some difficulties with value estimation remain, as well as the potential costs and problems of administering the program.

In a manual process to identify fraud, the department would issue letters to the sellers to confirm the terms of the sale. In many instances the letters elicit no response and do not address situations where the seller is a cohort of the buyer. Mr. Casey questioned the benefit of employing a verification program to combat fraud because the costs of enforcement may wipe out the



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revenue generated. He stated that other states have similar systems, but they only generate \$1 million per year with \$200,000-\$300,000 in costs. Mr. Casey ultimately does not believe a manual process would be effective. However, if such a program is created, he believes it would need to be done statutorily.

The Department of Transportation is looking at a procedure where at the time of registration of a vehicle, if the owner does not have an invoice indicating the purchase price, then the price will default to a standard price based upon a recognized retail price service, such as Kelley Blue Book.

According to Mr. Casey, another problem with Iowa's current system involves vehicles registered outside of Iowa. Mr. Casey provided an example involving an owner who creates a limited liability company in Montana and registers a vehicle there, but keeps and uses the vehicle in Iowa. Such a situation would allow the owner to avoid paying registration fees or the use tax. The department hopes the general public will help with reporting if they know of individuals avoiding payment through this method.

Changing the Motor Vehicle Use Tax. Mr. Casey reiterated that the vehicle use tax is not a sales tax. Accordingly, it is possible to raise the use tax rate and not raise the sales tax rate under the Streamlined Sales Tax Agreement. Mr. Casey indicated that this is the opinion within the Department of Revenue. Alternatively, creating a separate excise tax that is outside of the sales and use tax would eliminate any worries about tying the rates together. Mr. Casey stated, however, that a newly created excise tax would likely not be constitutionally protected. Mr. Casey also stated that a new excise tax system would provide flexibility because it would remove the current system and allow specific rates or exemptions.

Mr. Casey examined the possibility of eliminating the vehicle use tax and incorporating it into vehicle registration fees. He opined that by incorporating it as part of the registration fees it would be constitutionally restricted. He reminded the Committee that the use tax is a one-time fee and its inclusion in the registration fee would spread the cost out over several years. Such a proposal might also affect people who move in from out of state that only pay registration rather than the use tax when purchasing the vehicle. Changing the current system could eliminate the vehicle dealers from acting as use tax collectors and may affect the fee's administration and efficacy.

Motor Fuel Tax. Mr. Casey believes the motor fuel tax system is very efficient. Its efficiency is due to the "at the rack" distribution system. Tank farms where the fuel is stored and dispensed also serve as the taxation location. Accordingly, the department deals with only a few people and established businesses. In addition, electronic filing and payments by those few people has enhanced the efficiency.

Mr. Casey discussed the various motor fuel tax rate exemptions in existence. He did not advocate any action on them, but advised reassessing the exemptions to see if they are still valid. Mr. Casey estimated that \$20 million in refunds are issued annually. Currently, Iowa has a multiple rate system, which floats depending on the sales of ethanol. Mr. Casey opined that a single tax rate would be preferable and make administration much easier.

Mr. Casey told the Committee that a severance tax would not be a good funding mechanism for the TIME-21 Fund. Mr. Casey also noted that no severance tax collection system exists in Iowa and creation of such a system would have administrative problems.



Committee Discussion. In response to Committee questions, Mr. Casey indicated that the Department of Revenue receives vehicle sales information from the county treasurers. The Department of Revenue does not, however, have the resources to independently verify the information. Mr. Casey also stated that there is a greater likelihood of vehicle use tax fraud at the higher price levels than with people selling lower priced vehicles. He noted that one way to combat some of the fraud is to enact a minimum use tax or excise fee. Mr. Casey was of the opinion that if the motor vehicle use tax is made a separate excise tax it would not have to be part of the discussion if legislation provides for a statewide sales tax increase to replace the local option school sales and services tax.

IV. Committee Discussion

Co-chairpersons' Letter to Governor Chet Culver. The Committee began by discussing the status of Governor Culver's review of the letter sent by the Committee Co-chairpersons. The letter to Governor Culver described the Committee's work and requested his input as to which funding sources he might be willing to support. A representative from the Governor's Office indicated the Governor is in the development stage of identifying funding priorities, but that the Governor is looking forward to the Committee's action and a bipartisan solution.

Discussion of Committee Proposal. Representative Roberts expressed concern that the Committee still does not know what the Governor would be willing to support and believes that without the Governor's input a specific proposal could not be formulated and neither caucus could discuss a proposal prior to the legislative session. Senator Putney agreed that without more direction as to what funding mechanisms are available for consideration the entire proposal will lack support in both caucuses. Senator Warnstadt queried that if the members are waiting for the Governor then why is the Committee even meeting. He opined that it is preferable for the Committee to provide something for the Standing Committees on Transportation to work on. Senator Ward stated that the Committee needs direction from the Governor and from the majority party and questioned if the Committee should meet again to finalize a proposal. Co-chairperson Huser agreed that an additional meeting in December prior to the beginning of session may be appropriate.

Senator Warnstadt and Co-chairperson Huser also agreed with allowing each caucus to provide feedback. However, Senator Warnstadt, Co-chairperson Rielly, and Co-chairperson Huser each stated that the Committee is passing up an opportunity to make progress on establishing a consensus and clarifying items in the proposal. Representative Roberts questioned the efficiency of further discussions without direction from the leadership and the Governor because the discussions continue to become more expansive. Senator Warnstadt believes that there are items of agreement amongst Committee members, such as trailer registration, and urged the Committee to move forward in establishing that common ground. Senator Ward stated that she is not interested in a piecemeal approach and did not believe a comprehensive proposal could be approved during the meeting.

Discussion of Specific Funding Mechanisms. Co-chairperson Huser expressed support for a proposal that would change the use tax so it falls under vehicle registration, with the ultimate goal



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of constitutionally protecting those revenues. Co-chairperson Huser received no objections to this proposal from other Committee members. Co-chairperson Huser also expressed support for making the present \$3.00 surcharge on driver's licenses permanent. The surcharge is currently set to expire on June 30, 2008.

Requested Additional Information From Department of Transportation. Committee members also requested more information from the department on potential pickup truck registration fee adjustments. The department previously provided information on the impact of raising fees. However, that information did not identify the disparity that could be created. The Committee requested detailed information on the impact the various proposals would have on different sized trucks and the progression of fees among all sizes of trucks. Representative Lykam wanted to know the effect of increasing title fees from \$10 to \$20 and salvage title fees from \$5 to \$10.

V. Committee Action on Senator Putney's Motion

Senator Putney moved for the Committee's adoption of the Associated General Contractors of Iowa (AGC) proposal as a model and starting point for discussion. The AGC proposal involves the increases in existing fees and taxes with revenues projected for FY 2011-2012 as follows:

REVENUE SOURCE	REVENUE INCREASE
Gas Tax	\$88 million
Commercial/Agricultural Trucks, Special Trucks, Personal Pickups, Extended Registration Fees	\$88 million*
Driver's License Fees	\$7.4 million
Trailer Registration	\$7.5 million
Title Fees	\$10.1 million
Total	\$201 million

* This figure includes both the increase of fees and the 10 percent reduction in fees scheduled to begin in 2010 and 2011.

The AGC proposal was included in a letter from Mr. Scott Newhard of AGC to Co-chairperson Huser. This letter was distributed during the meeting, is incorporated by reference, and is on file with the Legislative Services Agency through the Committee's web site. In addition to the AGC proposal, Senator Putney's motion included a request that Committee members gather written responses from party leadership, caucuses, and Governor Culver. Following receipt of these responses, the Committee would then finalize a proposal at the next meeting. Representative Tjepkes seconded the motion.

Co-chairperson Huser moved to amend Senator Putney's motion by including two funding items discussed earlier. The two funding items were the modification of the vehicle use tax and making permanent the current \$3.00 surcharge. Co-chairperson Huser's motion was seconded by Senator Warnstadt. After brief Committee discussion, the Committee approved Co-chairperson Huser's amendment by a unanimous voice vote.

Co-chairperson Huser then moved to amend Senator Putney's motion by removing the requirement that party leadership report back to the Committee. Representative Roberts stated



that written response from the leaders is important because they have the ability to control the agenda during the legislative session.

Senator Warnstadt stated that he could not recall any prior precedent for an interim committee requesting information or feedback from party leadership as part of the Committee recommendations. Co-chairperson Huser withdrew her motion to amend Senator Putney's motion. Instead, Co-chairperson Huser moved to amend Senator Putney's motion to allow Committee members to report back from their respective caucuses. Senator Putney seconded the motion. The Committee approved Co-chairperson Huser's amendment by a unanimous voice vote.

Senator Warnstadt moved to amend Senator Putney's motion by adding provisions pertaining to the use tax and motorcycle registration. Committee discussion clarified that adoption of the AGC proposal would only constitute a framework and that no funding options or mechanisms would be excluded from consideration in the future. Some Committee members expressed a desire to keep the adopted proposal as simple as possible at this time, so long as other items can be added, removed, or amended at a later time. Senator Warnstadt then withdrew his amendment to Senator Putney's motion. Senator Putney's original motion, as amended, was then approved by the Committee through a unanimous voice vote.

Next Meeting. The next meeting of the TIME-21 Transportation Funding Study Committee was tentatively set for Wednesday, December 19, 2007, at 10:00 a.m. in Room 102 of the State Capitol Building. The meeting is contingent upon approval of an additional meeting day by legislative leaders.

VI. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the <Additional Information> link on the Committee's Internet web page:

<http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=210>.

1. Final Agenda.
2. Summary of Road Funding Status in Other States, Submitted by Mr. Anderson, Department of Transportation.
3. Iowa Gas Price/Tax Comparison, Submitted by Mr. Anderson, Department of Transportation.
4. Summary of Trailers Registered in Iowa, Submitted by Mr. Anderson, Department of Transportation.
5. State Highway Revenues and Allocations for Iowa and South Dakota, Submitted by Mr. Anderson, Department of Transportation.
6. Outline of Presentation, Submitted by Mr. Casey, Department of Revenue.



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7. Summary of AGC Proposal, Submitted by Senator Putney.
8. Letter to Co-chairperson Huser from Mr. Newhard, Associated General Contractors of Iowa.
9. Overview of Research on Taxes by Miles Driven, Submitted by Dr. Hanley, Director, Transportation Policy Research, Public Policy Center, University of Iowa.

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